



NONPROFIT SECTOR LATEST ACCOUNTING ADVANCES

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Abstract

In the United States, nonprofit entities have followed the FASB’s accounting guidance to present their financial statements, since 1993. However, in August 2016, FASB issued the Accounting Standards Update (ASU) 2016-14 *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The FASB ASU 2016-14 changes the current preparation, presentation and disclosure of the not-for-profit (NFP) organizations’ financial statements. In June 2016, the Internal Revenue Service (IRS) announced that public access to the data behind the 990 reporting form is now available for public review on demand. This paper presents the current advances in the nonprofit sector related to the preparation and presentation of financial information.

Registered Nonprofit Organizations by Type of Organization (BMF 08/2016)

Type of Organization	Number of Registered Organizations	Number of Organizations Filing Form 990 *	Total Revenue Reported on Form 990 *	Assets Reported on Form 990 *	Number of Organizations Filing Form 990-N **	Total Number of Organizations Filing Form 990 or 990-N ***
Other Nonprofit	367,388	137,652	\$ 435,695,954,185	\$ 1,266,933,778,404	\$ 191,586	\$ 329,238
Private Foundation	105,405	93,595	\$ 100,035,102,599	\$ 731,447,643,891	\$ 3,787	\$ 97,382
Public Charity	1,108,652	371,651	\$ 1,851,278,529,038	\$ 3,481,204,596,971	\$ 385,615	\$ 757,266
Total	1,581,445	602,898	\$ 2,387,009,585,822	\$ 5,479,586,019,266	\$ 580,988	\$ 1,183,886

Citation: Internal Revenue Service, Exempt Organizations Business Master File. The Urban Institute, National Center for Charitable Statistics. Retrieved February 18, 2017 from <http://nccsweb.urban.org/>

Introduction

The number of Not-For-Profit organizations in the United States comprises 1.58 million entities. Beside social impact purpose, this sector also plays an important role in the US economy. For instance, according to the Aspen Institute in 2013, it contributed an estimated of \$905 billion to the country’s economy, representing 5.3% of the country’s gross domestic product (GDP). According to the Internal Revenue Service (IRS) in 2016, the NFPs reported a total revenue of \$2.4 trillion and \$5.5 trillion in assets. While these organizations comply with GAAP rules, different stakeholders have expressed concerns about the financial information NFPs are presenting. According to FASB these concerns are: Complexity and understandability of net asset classifications, deficiencies in information about liquidity and availability of resources, lack of consistency in the type of information provided about expenses and investment return, misunderstanding about and opportunities to enhance the utility of the statement of cash flows.

FASB ASU 2016-14

This update is the first of two phases of the FASB not-for-profit project. Its goals are to improve: presentation of financial statements, classification of assets, financial performance, liquidity, cash flows. The disclosure will include qualitative and quantitative requirements in the following areas: net asset classes, investment return, expenses, liquidity and availability of resources, presentation of operating cash flows.

According to FASB (2016) the main provisions of this update are:

- Liquidity and Availability:** quantitative and qualitative disclosures about liquidity and availability of resources.
- Net Asset Classification:** report only two classes of net assets, restricted and non restricted. Temporary restricted asset is eliminated. Changes to underwater endowment accounting, enhanced disclosures.
- Expenses:** report expenses by function, nature, and an analysis showing the relationship between function and nature.
- Statement of Cash Flows:** continue to allow direct or indirect method for operating cash flows; indirect reconciliation no longer required for direct method.
- Investment Return:** present investment return net of external and direct internal investment expenses, no longer required to disclose nettled expenses.

Internal Revenue Service (IRS) 990 form information

Since June 2016, the information reported by not-for-profit organizations in the 990 form, is of public access in a machine-readable format through Amazon Web Services (IRS, 2016) The Internal Revenue Service’s goal was to make the 990-form data more easily accessible.

Improvements

- Manageable electronic data. Previously, the 990 data were released only as image files.
- Customized tools for searching and generating reports.
- Download data as an XML file which improves the manipulation and analysis of data.

Conclusion

The amendments in the FASB ASU 2016-14 will be “effective for annual financial statements issued for fiscal years beginning after December 15, 2017, and for interim periods within fiscal years beginning after December 15, 2018” (FASB, 2016). The adoption of the FASB ASU 2016-14 will lead not-for-profit organizations to significant changes in the preparation and disclosure of their financial information. Its implementation is a challenge for the NFPs, however, it will aid them to disclose relevant and useful information to their donors, grantors, creditors and other stakeholders. FASB believes that this update will simplify and improve the face of the NFPs’ financial statements. Likewise, the easy access to the 990-form information represents an advance for key stakeholders.